



City of Norfolk

Office of the City Manager

October 18, 2001

To The Honorable Council
City of Norfolk, Virginia

Dear Council Members:

The Comprehensive Annual Financial Report (CAFR) of the City of Norfolk for the fiscal year ended June 30, 2001 is hereby submitted. This report was prepared in compliance with Section 66 of the City Charter, which requires the preparation of an annual financial report at the end of each fiscal year.

The CAFR was prepared with an emphasis on the full disclosure of the financial activities of the City. Although this letter of transmittal is addressed to members of the legislative body, there is an awareness that the CAFR is also management's report to constituents, oversight bodies, resource providers, investors and creditors. The City of Norfolk has a tradition of compliance with legal statutes and conformity with the governmental accounting standards as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the Auditor of Public Accounts of the Commonwealth of Virginia. This transmittal letter and the exhibits and statistical tables included in the CAFR, reflect this philosophy.

Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The information included in the CAFR is accurate in all material respects and is presented in a manner designed to fairly reflect the financial position and operating results of the City, as measured by the financial activity of its various funds and account groups. In addition to accurately portraying the financial position and results of operations of the City, the CAFR presents all of the information necessary for users, including taxpayers, to comprehend the nature and scope of the City's operations.

Organization of the CAFR

The CAFR is divided into four main sections:

An Introductory Section, which contains the table of contents, a list 97 Tc1o2r.r 6 TD -084767 Tc 4.municip

The notes to the financial statements included in the GPFS are an integral part of the CAFR and should be read in conjunction with all of the financial statements for a complete understanding of the information presented. The GPFS are considered “liftable” and may be issued separately from the CAFR, possibly for inclusion in official statements, bond offerings, or for distribution to users requiring less detailed information.

The Statistical Section consists of a number of tables that present various financial, economic, social and demographic data, which are generally presented on a multiyear basis and designed to assist the reader in understanding the City by highlighting trends in selected financial and demographic data during the past ten years.

Other Reports of Independent Auditor’s includes a report on internal accounting controls and a report on internal control used in administering federal awards and on compliance with laws and regulations.

To report in accordance with the principles prescribed by the Governmental Accounting Standards Board (GASB), it has been necessary to depart from the budgetary basis in some instances, particularly with respect to the education function. The General Fund Budget includes revenue from categorical aid for education purposes and appropriates funds for education. However, for financial reporting purposes, revenue and expenditures of the education function are presented separately in the School Operating Fund within the School Board component unit.

The City of Norfolk is required to undergo an annual single audit of federal awards in conformity with the provisions of the Single Audit Act Amendment of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Information related to this single audit, including the schedule of expenditures of federal awards, findings and recommendations, and the auditor’s reports on internal control and compliance with applicable laws and regulations, is included in the Other Reports of Independent Auditor’s.

The Financial Reporting Entity and Services

The City of Norfolk was established as a town in 1682, as a borough in 1736, and incorporated as a city in 1845. The City is the economic, business, educational and cultural center of Southeastern Virginia. It lies at the mouths of the James, Elizabeth and Nansemond Rivers and the Chesapeake Bay, and is adjacent to the cities of Chesapeake, Portsmouth, and Virginia Beach. There are 66 square miles included in the City's corporate boundary. The City's population is currently estimated to be 234,403.

The City is organized under a Charter, granted by the General Assembly of Virginia in 1918, which authorizes a council-manager form of government. The City Council exercises all of the governmental powers conferred upon the City and consists of seven members elected to office under a ward-based system, with two members elected from city-wide super wards.



The City Council elects a Mayor and Vice Mayor from among its members. Among the City officials appointed by the City Council is the City Manager, the administrative head of the municipal government. The City Manager carries out policies of the City Council, directs business procedures, and appoints, with the power to remove, the heads of departments and other employees of the City, except those otherwise specifically covered by statutory provisions.

This report includes all the funds and account groups of the City (primary government) and the component unit entities for which there exists a significant operational and/or financial relationship with the City. The existence of a significant operational and/or financial relationship was determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to influence operations and/or accountability for fiscal matters.

Accordingly, in addition to the various funds, account groups, and constitutional officer activities of the City, the financial statements of the following entities are included in this report as component units of the City's financial reporting entity:

Blended Component Unit:

The Employees' Retirement System of the City of Norfolk

Discretely Presented Component Units:

The School Board of the City of Norfolk (The School's)

The Norfolk Redevelopment and Housing Authority (NRHA)

The Norfolk Community Services Board (CSB)

In previous years, the Hospital Authority of Norfolk (d/b/a Lake Taylor Hospital) was also included as a discretely presented component unit. With recent changes in the financial relationship, they are no longer presented with these financial statements. Financial statements for the hospital can be obtained from the hospital.

The City and its component units provide a full range of services including: police protection, fire and paramedical services; health and social services; planning and zoning management; code enforcement; storm water management; street maintenance; traffic control; parks and cemeteries operation and maintenance; recreation and library services; solid waste disposal; general administrative services; primary and secondary education; public health care; and, redevelopment and housing.

In addition, water and wastewater utilities and parking facilities services are provided under an enterprise fund structure with user charges set by City Council. Centralized storehouse and fleet management services are provided through internal service funds.

Cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently from a county government since they are located outside boundaries. There are no overlapping jurisdictions and consequently citizens of a Virginia city are not subject to overlapping debt or taxation.

MAJOR INITIATIVES

Legislative Initiatives

The City, not unlike other local governments in Virginia, receives significant support from state-shared revenues – mainly in the form of education and highway funds. As a result of this fiscal dependence, legislative activities of the Virginia General Assembly are carefully monitored.

The City, in cooperation with other Virginia cities, counties and towns, is encouraging the Virginia General Assembly to review both its educational funding methodology and future tax sharing options in its legislative programs. The State's existing educational programs encourage the Virginia General Assembly to continue to fully fund the actual costs of the Standards of Quality Program and other categorical educational mandates in the areas of special education, alternative education and gifted education. Also, in an effort to alleviate fiscal burdens currently experienced by local governments, the Virginia General Assembly is encouraged by local governments to consider tax sharing opportunities which provide natural growth rates more consistent with the economy.

Capital Improvement Initiatives

The City continues to be aggressive in its efforts aimed at stimulating economic growth. In fiscal year 2001, the City's Capital Improvement Program budget totaled approximately \$35 million. The program supports the prioritized capital investment objectives of the City Council and has served to revitalize downtown, enhance the overall quality of life for Norfolk residents and maintain the City's role as a regional leader. Additionally, the capital improvement program incorporates significant infrastructure activities, such as neighborhood enhancement, school construction, economic development projects, parks and recreation facilities improvements, and environmental compliance. Various citywide capital improvements are funded, including the upgrade and expansion of the water and wastewater utility, environmental storm water management and parking facility systems.

Mermaids on Parade



In the summer and fall of 2000, the sidewalks, parks, and fountains of the City were filled with mermaids. The **Mermaids on Parade** project generated over half a million dollars towards the arts. It was one of the biggest public arts movements in the country. The mermaids personify nautical and the City's themes, civic pride, the diversity of the region, and whatever else artist and sponsors could dream up. The mermaids have nested not only across the City of Norfolk in shopping malls, schools, banks, and parks but across the entire Hampton Roads region as well.

Other Initiatives

The School's budget continues to represent the largest spending area in the operating budget at 41 percent and reflects the recognition of Norfolk's continuing high priority for education. Additional funding from the state

allows School's to structure and implement outreach activities and programs designed to touch the lives of "at risk children" by focusing efforts toward instilling discipline, reducing the dropout rate, and improving literacy.

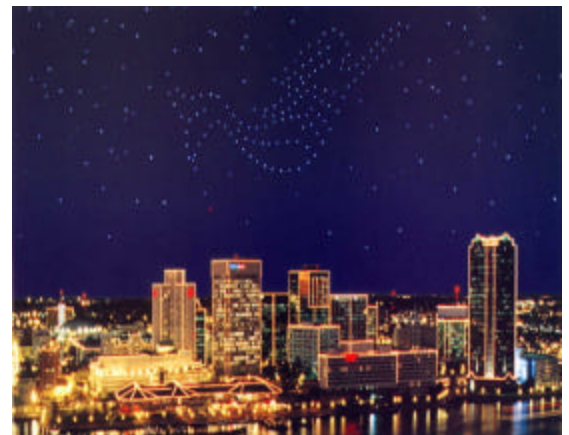
Various other management initiatives have been undertaken with the objective of improving the efficiency and cost effectiveness of our service delivery systems. Among those ongoing during fiscal year 2001 were:

- An emphasis on the importance of strategic planning and budgeting, including the reassessment of City goals and objectives, the priority of city services delivered, and the establishment of specific measures of performance. This emphasis is the main thrust of the City Manager's Staffing and Organizational Redesign (SOR) initiative, the purpose of which is to identify the City's highest priority services, determine appropriate staffing levels, provide linkage between human resources and departmental performance results, avoid unnecessary personnel costs and facilitate continuous improvement throughout the organization.
- The systematic upgrade to and employment of advanced electronic information technology to automate, streamline and redesign operations and processes as a means of enhancing customer service, organizational productivity, and financial performance.

Economic Conditions

Over the past year, **the City** has continued to maintain its position of fiscal strength, partially attributable to effective management and the public administration policies of the City Council. Contributing factors also included self-imposed restraints on expenditures and revenue enhancement through a diligent economic development program.

The City's economic development initiatives and strategies are focused on the attraction, expansion and retention of businesses, neighborhood and community revitalization, and commercial corridor development. These initiatives provide a structure for development and redevelopment in various parts of the City.



Downtown Development

Downtown Norfolk, the heart of the Hampton Roads region, offers a mix of cultural attractions and entertainment for citizens and tourists. These attractions include Nauticus, the Battleship Wisconsin, Harbor Park, MacArthur Center, Harrison Opera House, Chrysler Museum, Marriott Hotel and Conference Center, Tidewater Community College and Waterside Festival Marketplace.

The downtown office market experienced tremendous growth in the last two years, spurring new construction to accommodate the growing market. Not since the late 1980's has new Class 'A' office development occurred. In September 2000, the Crown Center was completed at the corner of St. Paul's Boulevard and Main Street. This 66,000 square foot, Class 'A' office building is currently occupied by Glasser and Glasser, PLC, Old Point

National Bank, and Vie de France restaurant. Construction is underway for the 150 W. Main Street Office Tower, located at the other end of Main Street. This 220,000 square foot office tower will be completed in early 2002.



MacArthur Center, an upscale regional shopping center anchored by Nordstrom and Dillard's, generated \$5.71 million in sales taxes and \$1.94 million in real estate taxes during fiscal year 2001.

Complementary to MacArthur Center is the success of the Waterside Festival Marketplace. Waterside, the first redevelopment project on the downtown waterfront in 1983, has enjoyed one of the most successful years to date. The complex has shifted its emphasis to restaurant and entertainment venues and is currently 100% leased. Sales and revenue have increased over 78% between 1999 and 2001.

The Norfolk Campus of **Tidewater Community College** was completed in 2001 as a part of the City's redevelopment effort. The campus consists of three buildings that house classrooms, faculty offices, conference centers, and computer laboratories. This campus offers 11 academic programs and has served over 5,751 students in the 2001-2002 academic year.



The newly renovated Loews Theatre at the Tidewater Community College was renamed the Jeanne and George Roper Performing Arts Center. This \$8.8 million investment adds another arts and cultural institution to the Norfolk entertainment and theatre district. This district, including the Harrison Opera House, Chrysler Hall, Chrysler Museum, Wells Theatre, and the NorVa, strengthens the City's appeal as the arts and cultural leader in Hampton Roads.

The City in partnership with the NRHA and various community leaders embarked upon the renovation of the historic Attucks Theatre. This \$5.9 million renovation project, which takes advantage of federal tax credits, will help transform it into a cultural center for live musicals, theatrical and dance performances and the fine arts. Completion is expected in the fall of 2002.



Nauticus, The National Maritime Center, a 120,000-square-foot, multi-level maritime showcase, features hands-on exhibits including computer and video interactives, commerce and military-related displays, and exotic aquaria. The USS Wisconsin, the last-built and biggest of the World War II-era battleships, was celebrated and berthed adjacent to Nauticus. The Wisconsin opened to the public in April 2001 and is a major tourist attraction.

The pier at Nauticus received \$2 million dollars dedicated for pier improvements accommodating cruise ships with passengers up to 3,500. Prior to the pier improvements, Nauticus was reserved for over 32 cruise ship visits this year. The pier improvements will solidify City as a destination in the cruise ship industry.

The City approved a planned expansion of **Metro Machine Corporation** with an allocation of \$25 million in private activity Empowerment Zone Bonds. The expansion, valued at \$60.9 million will create 185 jobs in the ship-painting industry. Plans are to open the facility in September 2002.



As a result of the revitalization of downtown and other neighborhoods throughout the City, property values in the City have experienced their best year since 1991, with assessments growing from \$8.1 billion in fiscal year 2000 to nearly \$8.5 billion in fiscal year 2001, over a 5% increase. Downtown assessments increased to \$687 million, a 10% increase in one year. Since 1981, downtown assessments have increased over a half a billion dollars.

Hotel Development

The downtown hotel market offers a wide variety of hotel products to accommodate the business travelers, convention guests, and tourists. The current market consists of the Waterside Marriott Convention Center, Sheraton Waterside, Clarion James Madison, Radisson Hotel, and the Tazewell with a total of 1,377 rooms. A 140-room Courtyard Marriott, located adjacent to the MacArthur Center, is currently under construction. The \$14 million investment will be completed in 2002.

Two other major hotel projects were completed in the Military Highway/Northampton Boulevard corridor of the City. Holiday Inn & Suites, located at the Lake Wright Executive Center, contains 146-rooms and is experiencing over a 75% occupancy rate in its first year of operation. The Lake Wright Convention Center was redeveloped into a Quality Inn and Sleep Inn with several convention and meeting room facilities.

Neighborhood and Community Revitalization

One of the City's core values, and part of its economic development plan, is neighborhood revitalization. By increasing the diversity of housing opportunities the City expects to increase the diversity of its citizenry and expand the tax base. The City's goal for neighborhood and commercial development is to provide an environment that will increase private sector investment, retail sales generation and corresponding municipal revenue generation, create a framework for targeted and coordinated public and private investment and build upon and coordinate with other ongoing community development initiatives. Recent efforts to achieve these goals are described below.

Phase I of the Old Dominion University (ODU), **University Village** is currently under construction. The 75-acre project includes construction of an 8,600 seat Convocation Center, mixed-use office developments for faculty and research and development, and retail and garden style apartments. ODU continues to gain a national reputation as a major research university with a total economic impact to the region estimated to exceed \$600 million annually.



Over the past decade, the 7-mile stretch of beautiful beaches on the Chesapeake Bay known as Ocean View has seen a significant redevelopment effort take place. In the past decade, more than 180 new homes were built in Ocean View with an average value of \$225,000. Several private and public redevelopment efforts are currently underway adding beautiful homes to this revitalized area. The City and NRHA invested approximately \$45 million to buy and clear the 90-acre East Beach redevelopment project. When the project is complete, it is estimated that \$100 million in increased property assessments will be added to the City's tax base. This 90-acre project is planned to be a mixed-use development that will include over 500 single family and luxury condominium residences with prices ranging from \$180,000 - \$1,000,000. As a result of the City's initiatives in East Beach, other private

residential developments are occurring throughout Ocean View adding several single- family homes and luxury condominiums.



Along the downtown riverfront, development continues in the Freemason Harbor area, an 8-acre, \$30 million residential and commercial development marketed under the name **The Heritage at Freemason Harbor**. The development includes 180 luxury apartment units, townhouses, condominiums, office and retail space, and a restaurant. In January 2000, construction began on the Pier Point development in the Freemason area. Once complete, Pier Point is expected to include 72 luxury condominiums with values ranging from \$200,000 to \$500,000. Partially due to the success of the Heritage at Freemason Harbor, other loft-style condominiums are being renovated throughout the downtown area to meet the growing residential demand.

The City's Broad Creek Renaissance area encompasses a two-square mile area located to the east of downtown. Through a \$35 million Hope VI grant from HUD, NRHA will demolish Norfolk's two oldest public housing developments. They will be replaced with a mix of single and multi family housing, some publicly subsidized, and small commercial use. Other pieces of this redevelopment effort include street reconfiguration, home-ownership programs, and recreational facilities. The entire project area is estimated to access \$240 million in public and private funds to revitalize this 14-neighborhood area.

Business, Industry and Commerce



The City of Norfolk is proud to announce the expansion of the **Ford Motor Company** plant located in the South Norfolk section of the City. Ford Motor Company is one of the largest employers in the City and has been a corporate citizen since 1925. This \$375 million dollar investment announced by Ford in July 2001 will enable the plant to prepare for the 2003 model year F-150 trucks. The expansion will add

approximately 200 more jobs. The plant currently employs over 2,300 workers producing 1,000 trucks daily. According to the Company, sweeping cuts to Ford Motor Company's domestic white-collar work force announced in August 2001 should mean only minor job losses for the automaker's Norfolk pickup truck plant.

The commercial corridor revitalization continues outside the City's downtown in the City's various industrial and office parks that offer more than 800 acres. Ninety-five percent of the developable acreage has been sold in the Norfolk Commerce Park which houses approximately 150 firms with an estimated 3,000 employees. The City-owned Norfolk Industrial Park, the largest industrial park in Hampton Roads, is located east of the downtown area on 375 acres containing approximately 120 firms with an estimated 6,000 employees.

The City purchased a 31.0-acre track of land and rezoned the property from multi-family to Business/Commercial uses to create the Central Business Park. The new business park, centrally located to the port, airport, and interstate, can accommodate approximately 325,000 square feet of flex space. The infrastructure is complete and land is for sale at \$115,000 per acre.

Zim Israel Navigation Co. Ltd., the ninth largest shipping company in the world, will be relocating its headquarters to the Norfolk from the New York/New Jersey area. The company will be headquartered in a 40,000 square foot building in the Lake Wright Executive Center. Zim Israel will provide over 235 jobs locally.

Military

The presence and role of the military in Norfolk has a significant impact on the local economy and remains a positive force. The City has steadily grown to be, and will remain, the home of the world's largest naval complex, with headquarters for Commander in Chief of U.S. Atlantic Command, NATO's Supreme Allied Command Atlantic, Commander in Chief U.S. Atlantic Fleet and other major naval commands. Although the military remains a key part of Hampton Roads' economy, the region continues to successfully diversify its economy.



The Navy's direct economic impact on the region was \$8.2 billion in 2000 and was comprised of a total annual payroll of \$5.1 billion and spending on goods and services of \$3.1 billion. The City expects to continue as a center of activity for the **U.S. Navy** with current total personnel (uniform, civil service and retired) and family members in excess of 280,000.

Hampton Roads is the largest center of Coast Guard operations in the world with the Atlantic Area Command and Maritime Defense Zone Atlantic in Portsmouth and its Maintenance & Logistic Command Atlantic headquarters in downtown Norfolk.

Virginia Port Authority

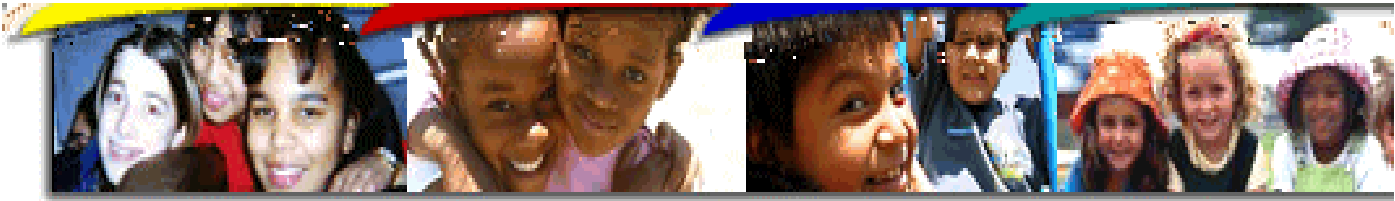
In 1981, the Virginia General Assembly passed landmark legislation designed to unify the ports in southeastern Virginia, Hampton Roads harbor under a single agency, the Virginia Port Authority, with a single operating company, Virginia International Terminals, Inc. The Port of Virginia, one of the world's largest natural deep water harbors, is a significant factor in Norfolk's economy. Norfolk is ideally located for international transportation and maritime commerce in the middle of the U. S. Atlantic coast and serves as a gateway between world commerce centers and the industrial heartland of the United States. Contributing to impressive growth in the port industry. The Port of Virginia consists of Virginia's state-owned port system including Newport News Marine Terminal, Portsmouth Marine Terminal and Virginia Inland Port in Warren County, in addition to its mainstay Norfolk International Terminals. The Port Authority continued its growth in 2000 and is currently the second largest general cargo port on the U.S. East Coast. More than 11.9 million tons of cargo were shipped across the docks at the region's three main marine cargo terminals in 2000, marking the seventh consecutive year the Port of Virginia has handled a record amount of general cargo.

Medical Facilities

There are, within the City of Norfolk, a total of five general, acute care and specialized hospitals with a combined licensed bed total in excess of 1,750. In addition, the City is home to one of three medical schools within the State of Virginia, the Eastern Virginia Medical School. The medical school's full-time enrollment was 549 for 1999-2000 academic year.

Education

Available within the City are a wide variety of educational facilities including public elementary, middle and high schools, private and parochial schools, two universities, one college, one community college and a medical school.



Public Schools. **Norfolk Public Schools'** approach to education combines innovative programs with an emphasis on reading, mathematics and the sciences. A low pupil-teacher ratio with class sizes well below the national average has contributed to the system's learning foundation. In addition to strong instruction in the basics, students can count on individualized help to meet their special needs.

Norfolk offers innovative public school programs, which include Early Childhood Education, a unique, comprehensive program for three and four-year-olds and their parents located in the public housing community of Diggs Town, at the Park Place/Colonial Place Community Center and at Ocean Air Elementary. The school system and the City have successfully worked together to accommodate the school's Early Childhood Program in three recreation centers and to establish a partnership between schools and libraries that will result in extended learning and homework programs for middle and high school students.

The City is home to the Governor's Magnet School for the Arts, Virginia's only magnet school for the arts, which offers classes in performing or visual arts to approximately 300 talented students from six cities and two counties. The school system also has a program for gifted science students that enables them to study at Eastern Virginia Medical School.

Higher Education. The City is home to several institutions of higher learning. Old Dominion University (ODU) was founded in 1930 in Norfolk as a branch of the College of William and Mary and became an independent institution in 1962. The four-year, state-supported university in 1999-2000 had full and part-time enrollment of approximately 19,000 students.

Founded in 1935, Norfolk State University (NSU) is Virginia's largest, and one of the country's five largest historically black institutions of higher learning. The 1999-2000 full and part-time enrollment was approximately 6,668 students.

Virginia Wesleyan College was founded in 1966 and is a private, coeducational, four-year liberal arts college on the Norfolk-Virginia Beach line. There were approximately 1,421 students enrolled full and part-time in the 1999-2000 academic year.

Tidewater Community College (TCC) was established in 1968 with campuses in Virginia Beach, Chesapeake and Portsmouth. It opened its Norfolk center in November 1990. The state-supported school offers its programs through its network of convenient Hampton Roads locations, including strategically placed off-campus sites at area high schools, hospitals and military bases. It provides Hampton Roads residents with a flexible, convenient and practical educational resource. The College grants associates degrees, certificates and diplomas in more than 130 areas to meet the educational and technical training needs of students ranging from recent high school graduates to business, industry and government workers and senior citizens. TCC offers higher education to those Norfolk citizens currently not served by Old Dominion and Norfolk State Universities and will link them with the job market.

Eastern Virginia Medical School is one of three medical schools in Virginia and is Hampton Roads' first medical school. This Norfolk-based facility is governed by the Medical College of Hampton Roads. Students use 20 area hospitals and clinics for practical training. The school relies on private funding support from area cities and limited state support to fulfill its mission. Affiliates include the Jones Institute for Reproductive Medicine, the Leonard R. Strelitz Diabetes Institutes, the Center for Pediatric Research, and the Virginia Prostate Center. Not only has EVMS made it possible for area residents to obtain treatment locally, it has

achieved a reputation which brings patients for services in such areas as endocrinology, geriatrics, pediatrics, oncology, otolaryngology and reproductive medicine and infertility from other areas of the country. The Jones Institute for Reproductive Medicine was the first in-vitro fertilization clinic in the United States. Currently, EVMS is more than halfway through a \$62 million capital campaign that will create centers for biomedical research; general medical education and information technology; and aging and human development. EVMS has forged cooperative educational and research programs with Norfolk State University and Old Dominion University, as well as the College of William and Mary in Williamsburg, Virginia—partnerships which EVMS officials consider among its most distinctive characteristics.

